

Pensions Committee

14 September 2016

Report title	Responsible Investment Activities	
Originating service	Pension Services	
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Recommendation(s) for noting:

The Committee is asked to note:

1. The Fund's voting and the Local Authority Pension Fund Forum's (LAPFF's) engagement activity for the three months ending 30 June 2016, including Appendix 1.
2. The issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on their website:
http://www.lapfforum.org/Publications/engagement/files/Q2_2016_QER_FINAL.pdf
3. An update on the Israeli-Palestinian engagement program and the outcome of shareholder resolutions on carbon management and climate change risk within the mining sector.
4. The arrangements being made to extend the contract for the Fund's Proxy Voting service provider and re-tender the LAPFF research and engagement partner.
5. The updating of the Fund's Compliance with the UK Stewardship Code for Institutional Investors.

1.0 Purpose

- 1.1 To inform the Pensions Committee of the work undertaken by the Investment team regarding their responsible investment activities between the period 1 April to 30 June 2016.

2.0 Background

- 2.1 The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests. The Fund will also challenge companies who do not meet either the standards set by their peers or reasonable expectations as measured by best practice. The Fund's approach is part of its overall investment management arrangements and its active responsible investment policy. There are two main areas of responsible investment that we focus on: **voting globally** and **engagement through partnerships**.

3.0 Responsible Investment Activities

Voting Globally

- 3.1 The Fund currently has its own bespoke UK voting policy which our voting provider, Pensions and Investments Research Consultants Ltd (PIRC), executes on our behalf. However, the Fund follows the voting advice of PIRC for European, US, Japanese and Pacific region company meetings.
- 3.2 The voting activity for the quarter across markets and issues can be found in Appendix 1. During the period the Fund voted at a total of 1,672 company meetings – 211 UK, 365 European, 467 North American, 411 Japanese, 157 Asia (excluding Japan), and the remaining 61 meetings predominantly located in Australia/New Zealand and South America. During this period there were 13 meetings where the Fund supported all the resolutions put forward by companies. Approximately 35.0% of the resolutions were not supported by the Fund.

Engagement through Partnerships

- 3.3 Our engagement program is predominantly implemented through the Fund's membership of the Local Authority Pension Fund Forum (LAPFF). The mission statement of the Forum is "to promote the investment interests of local authority pension funds and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulations". LAPFF has a current membership of 65 public sector pension funds in the UK with combined assets of over £175 billion. LAPFF members regularly meet together to discuss environmental, social, and governance (ESG) issues and ways to promote high standards of corporate behaviour at investee companies.

- 3.4 A summary of LAPFF's engagement activities for the quarter are provided alongside the voting activity report in Appendix 1. The issues are set out in the Quarterly Engagement Report which is available on LAPFF's website:

http://www.lapfforum.org/Publications/engagement/files/Q2_2016_QER_FINAL.pdf

Update on Israeli-Palestinian Campaign

- 3.5 As reported at the previous meeting of this Committee, the Fund completed its follow-up engagement with Motorola, Caterpillar, Hewlett Packard, and G4S. Whilst Caterpillar, Hewlett Packard, and G4S continued to integrate human risks considerations into its business processes (including how to operate in conflict-affected regions such as Israel) in accordance with the UN Guiding Principles on Business and Human Rights. Motorola had not implemented the Guiding Principles but was responsive to further dialogue on the issue.

Therefore, it was agreed that LAPFF should be approached to engage with the company to encourage and advocate compliance with the UN Guiding Principles. This request has now been made to LAPFF and will be considered by the LAPFF executive at their October meeting.

Actions taken by the Fund on climate change

- 3.6 As reported in the December 2014 Committee report, LAPFF is part of the "Aiming for A" investor coalition of UK asset owners and mutual fund managers that has been engaging with the ten largest UK-listed extractives and utilities companies to assess and encourage them to make preparations for a low carbon operating environment. BP and Shell were initially selected as they have the largest carbon footprints in the FTSE 100. The Fund co-filed shareholder resolutions at BP and Shell in 2015, which received support by both the companies and were overwhelmingly passed at their respective Annual General Meetings.
- 3.7 During the spring of 2016, the "Aiming for A" initiative called on mining giants Anglo American, Glencore and Rio Tinto to be more transparent over climate change risks and opportunities to their businesses. To continue its support of LAPFF and this initiative, the Fund co-filed shareholder resolutions at these three companies alongside several other like-minded investors. Each of the resolutions received an exceptional level of support from voting shareholders with Rio Tinto attracting a 99.1% vote in favour, the highest ever level of support for a shareholder resolution in the UK. The companies will now be monitored to ensure that these resolutions are implemented within the respective company reports.

West Midlands Pension Fund research and engagement partner

- 3.8 Members are aware that for a number of years, the Pensions and Investments Research Consultants Ltd (PIRC) have been providing a proxy voting service on behalf of the Fund. The service includes the submission of votes at the meetings of the majority of the Fund's worldwide quoted equity holdings, undertaking engagement on behalf of the Fund

as well as supplying the Fund with advice on a wide range of environmental, social and governance issues.

- 3.9 PIRC were last appointed in 2012, under a five year contract with the option to extend for a further two years. The initial contract period is due to end on 31 March 2017. Therefore work will begin in the next few weeks to arrange for a 12 month extension to the contract to take effect from 1 April 2017.

LAPFF Contract

- 3.10 As reported at the March meeting of the Pensions Committee, the current LAPFF contract is up for renewal as of 31 May 2017. The contract has a value of approximately £400,000 p.a. By way of background, the financial administration of LAPFF is managed through City of Wolverhampton Council and with the Fund through Geik Drever, Strategic Director of Pensions. This includes the responsibility of administering the contract of LAPFF's research and engagement partner.
- 3.11 The LAPFF executive has endorsed the use of the LGPS National Framework for Stewardship Advisory Services (subject to a successful launch) and the work to initiate this process is due to begin during the autumn. The framework is administered by Norfolk County Council. This efficient arrangement removes the need for a pension fund to undertake an independent EU procurement process as this has already been undertaken by the framework. It also allows LGPS funds to work together in order to reduce the cost and the time taken to deliver a successful tender event. The stewardship framework is due to be completed in the next few weeks.
- 3.12 The project will be overseen by a sub-committee of the LAPFF executive, on which Geik Drever in her role as LAPFF Treasurer will be a member. The successful tenderer will also require the approval of the Pensions Committee and it is expected that this will be included at a special meeting of Pensions Committee in February 2017.

4.0 Policy Update

- 4.1 The Fund's Compliance with the UK Stewardship Code has been updated and is also attached at Appendix 2.

5.0 Financial implications

- 5.1 The promotion of good corporate governance amongst companies in which the Fund invests is complementary to the Fund's objective of maximising financial returns, as it is widely believed that good corporate governance improves shareholder value in the long term.

6.0 Legal implications

- 6.1 This report contains no direct legal implications.

7.0 Equalities implications

7.1 This report contains no equal opportunities implications.

8.0 Environmental implications

8.1 Environmental implications are addressed through the Fund's corporate governance policy.

9.0 Human resources implications

9.1 This report contains no direct human resources implications.

10.0 Corporate landlord implications

10.1 This report contains no direct corporate landlord implications.

11.0 Schedule of background papers

- LAPFF Quarterly Engagement Report April to June 2016:
<http://www.lapfforum.org/Publications/engagement>

12.0 Schedule of Appendices

- Appendix 1 (Voting and Engagement Activity)
- Appendix 2 (Compliance with the UK Stewardship Code 2016)